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首鋼福山資源集團有限公司
SHOUGANG FUSHAN RESOURCES GROUP LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 639)

CONTINUING CONNECTED TRANSACTION

MASTER SALE AGREEMENT

On 3 July 2019, the Company entered into the Master Sale Agreement with Hongguang Power, which set out the basis upon which the Seller would carry out a continuing connected transaction with the Purchaser, and the annual caps for the period from 3 July 2019 to 31 December 2019 and the two years ending on 31 December 2020 and 31 December 2021, respectively.

As at the date of this announcement, Hongguang Power is owned as to 49% by a substantial shareholder of the Company's subsidiaries, being a connected person of the Company. Accordingly, Hongguang Power is an associate of a connected person of the Company under Rule 14A.13(3) of the Listing Rules and thus also a connected person of the Company. The transactions entered into between the Seller and the Purchaser under the Master Sale Agreement constitute continuing connected transactions of the Company under the Listing Rules.

As the applicable percentage ratios calculated with reference to the annual caps under the Master Sale Agreement (aggregated with historical transaction amount) exceed 1% threshold under Rule 14A.76(1)(b) but are less than 5% threshold under Rule 14A.76(2)(a) of the Listing Rules, such transactions are subject to the reporting, announcement and annual review requirements, but is exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

INTRODUCTION

The Group has been supplying coal products to Hongguang Power since the first quarter of 2019 in its ordinary and usual course of business.

As the expected annual transaction amount would exceed 1% threshold under Rule 14A.76(1)(b) of the Listing Rules, on 3 July 2019, the Company and Hongguang Power entered into the Master Sale Agreement to set the annual caps and to regulate the continuing connected transactions between the Seller and the Purchaser in compliance with the Listing Rules.

THE MASTER SALE AGREEMENT

Date

3 July 2019

Parties

The Company and Hongguang Power

Nature of the Sale Transactions

The Seller will supply the coal products (including the coal by-product produced in the coking coal washing process) to the Purchaser. During the term of the Master Sale Agreement, the Seller and the Purchaser would enter into individual sale agreements from time to time in respect of the Sale Transactions upon and subject to the terms and conditions in compliance with the Master Sale Agreement.

Term

From 3 July 2019 to 31 December 2021 (both days inclusive).

Principal terms

- (1) The consideration for the Sale Transactions and the relevant terms shall be stated in individual sale agreements to be entered into by the relevant parties;
- (2) The Sale Transactions shall be made on terms and conditions no less favorable to the Group than those available from independent third parties;
- (3) The pricing terms under the Master Sale Agreement will be determined based on an arm's length basis, on normal commercial terms and in accordance with the following principles:
 - (i) by reference to the prevailing market prices of the same or substantially similar products, taking into account of the price of the same or substantially similar products with comparable order quantities and quality being offered on the market;
 - (ii) if there are not sufficient comparable transactions in (i) above, on normal commercial terms comparable to those offered to/received from independent third parties in respect of the same or substantially similar products with comparable quantities;
 - (iii) if both (i) and (ii) above are not applicable, by reference to the average price of similar products previously supply by a party, and on normal commercial terms comparable to those offered by the relevant party to independent third parties; and
- (4) Consideration payable under the Master Sale Agreement will be billed in a timely and appropriate manner according to terms of the individual sale agreements to be agreed by both parties.

HISTORICAL AMOUNTS AND ANNUAL CAPS

Historical amounts

The Group had explored Hongguang Power as a customer in the first quarter of 2019 and started supplying coal products to Hongguang Power in its ordinary and usual course of business. The total amounts (exclusive of VAT) of the historical transaction of the coal products supplied by the Seller to the Purchaser from 1 January 2019 to 2 July 2019 is approximately RMB23,400,000.

Annual caps

The annual caps (exclusive of VAT) of the Sale Transactions are set out below:

	For the period from 3 July to 31 December 2019 RMB	For the year ending 31 December 2020 RMB	For the year ending 31 December 2021 RMB
Annual Caps (excluding VAT)	60,000,000	100,000,000	120,000,000

Basis of the annual caps

The annual caps are determined based on the following factors, including: (i) historical transaction amounts between the Seller and the Purchaser; (ii) the expected production volume of the relevant coal products by the Seller; (iii) the forecasted coal prices; and (iv) the expected demand of the relevant coal products by the Purchaser.

REASONS FOR AND BENEFITS OF ENTERING INTO THE SALE TRANSACTIONS

The Group had explored Hongguang Power as a customer in the first quarter of 2019 and started supplying coal products to Hongguang Power in its ordinary and usual course of business. Both parties have been satisfied all completed orders including the prices, quality, delivery and payment terms, and have intention to continue the Sale Transactions in the long run. As the expected annual transaction amount would soon exceed 1% threshold under Rule 14A.76(1)(b) of the Listing Rules, on 3 July 2019, the Company and Hongguang Power entered into the Master Sale Agreement to set the annual caps and to regulate the continuing connected transactions between the Seller and the Purchaser in compliance with the Listing Rules.

The Directors (including independent non-executive Directors) are of the view that the Master Sale Agreement and the annual caps are carried out and determined in the ordinary and usual course of business, the terms are on normal commercial terms or better, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL POLICY OF THE GROUP

To ensure that the transactions contemplated under the Master Sale Agreement will be conducted in accordance with its terms and conditions, the internal audit department of the Company will review the Sales Transactions on a periodic basis to ensure that (i) the transactions are conducted in accordance with the terms of the Master Sale Agreement; (ii) the pricing terms are in accordance with the pricing policy of the Master Sale Agreement; and (iii) the annual caps have not been exceeded.

The transactions contemplated under the Master Sale Agreement is subject to the review by the independent non-executive Directors on an annual basis, who will confirm in the annual report whether the transactions have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the Master Sale Agreement on terms that are fair and reasonable and in the interests of the Shareholders as a whole. In addition, the Sale Transactions will also be subject to the review on an annual basis by the auditors of the Company, who will confirm to the Directors as to whether there is anything which has come to their attention that causes them to believe that such continuing connected transactions: (i) have not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing the transactions; and (iv) have exceeded the annual caps.

INFORMATION REGARDING THE PARTIES

The Group is principally engaged in coking coal mining, production and sales of coking coal products in China. The Group is also engaged in sales of coal by-product produced in the coking coal washing process.

Hongguang Power is principally engaged in construction and operation of power plants in China.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Hongguang Power is owned as to 49% equity interest by a substantial shareholder of the Company's subsidiaries, being a connected person of the Company. Accordingly, Hongguang Power is an associate of a connected person of the Company under Rule 14A.13(3) of the Listing Rules and thus also a connected person of the Company. The transactions entered into between the Seller and the Purchaser under the Master Sale Agreement constitute continuing connected transactions of the Company under the Listing Rules.

The Group has been supplying coal products to Hongguang Power since the first quarter of 2019 in its ordinary and usual course of business. The total amounts (exclusive of VAT) of the historical transaction of the coal products supplied by the Seller to the Purchaser from 1 January 2019 to 2 July 2019 is approximately RMB23,400,000. Such historical transactions are fully exempt under Rule 14A.76(1)(b) of the Listing Rules as the applicable percentage ratios calculated with reference to the total historical transaction amounts are less than 1% threshold. As the expected annual transaction amount would exceed the aforesaid 1% threshold, on 3 July 2019, the Company and Hongguang Power entered into the Master Sale Agreement to set the annual caps and to regulate the continuing connected transactions between the Seller and the Purchaser in compliance with the Listing Rules.

As the applicable percentage ratios calculated with reference to the annual caps under the Master Sale Agreement (aggregated with historical transaction amount) exceed 1% threshold under Rule 14A.76(1)(b) but are less than 5% threshold under Rule 14A.76(2)(a) of the Listing Rules, such transactions are subject to the reporting, announcement and annual review requirements, but is exempt from the circular (including independent financial advice) and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

GENERAL

None of the Directors has any material interest in the above-mentioned transactions or is required to abstain from voting on the relevant resolutions of the Board.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

“associates”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of directors of the Company;
“Company”	Shougang Fushan Resources Group Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange;
“connected person(s)”	has the meaning ascribed to it under the Listing Rules;
“Directors”	directors of the Company;
“Group”	the Company and its subsidiaries from time to time;
“Hongguang Power”	Shanxi International Energy Group Hongguang Power Generation Co., Ltd. (山西國際能源集團宏光發電有限公司), a company established in China with limited liability owned as to 49% by a substantial shareholder of the Company's subsidiaries and 51% by Shanxi International Energy Group Co., Ltd. (山西國際能源集團有限公司), an independent third party, respectively;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Master Sale Agreement”	the master sale agreement dated 3 July 2019 entered into between the Company and Hongguang Power;
“Purchaser”	Hongguang Power and/or its subsidiaries from time to time;
“RMB”	Renminbi, the lawful Chinese currency;
“Sale Transactions”	the sale transactions under the Master Sale Agreement;

“Seller”	the Company and/or its subsidiaries from time to time;
“Shareholder(s)”	the holder(s) of the ordinary share(s) of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules;
“VAT”	Value added tax; and
“%”	per cent.

By Order of the Board
Shougang Fushan Resources Group Limited
Ding Rucai
Chairman

Hong Kong, 3 July 2019

As at the date of this announcement, the Board comprises Mr. Ding Rucai (Chairman), Mr. Li Shaofeng (Managing Director), Mr. So Kwok Hoo (Deputy Managing Director), Mr. Chen Zhaoqiang (Deputy Managing Director), Mr. Liu Qingshan (Deputy Managing Director), Ms. Chang Cun (Non-executive Director), Mr. Kee Wah Sze (Independent Non-executive Director), Mr. Choi Wai Yin (Independent Non-executive Director), Mr. Chan Pat Lam (Independent Non-executive Director) and Mr. Japhet Sebastian Law (Independent Non-executive Director).